






# Ministry of Defence Budget Insights

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## KEY HIGHLIGHTS

-  In FY 26-27 Budget Estimates (BEs), the Ministry of Defence (MoD) has been allocated ₹7,84,678 crore, a 7 per cent increase over the previous year's Revised Estimates (REs) but a 15 per cent increase if compared to the BEs.
-  The allocation for MoD is structured across four Demands for Grants: Ministry of Defence (Civil), Defence Services (Revenue), Capital outlay on Defence Services, and Defence Pensions. Defence Services (Revenue) accounts for the largest share, comprising 47 per cent of the total allocation in FY 26-27 BEs.
-  Defence expenditure as a share of GDP has declined from FY 22-23 to FY 25-26 REs.
-  Within the overall allocation, revenue expenditure of the Army constitutes the largest component (31 per cent), followed by defence pensions for all armed forces (23 per cent), in FY 26-27 BEs.
-  Capital expenditure on procurement of defence equipment has remained below budgeted levels, primarily due to delays in procurement and acquisition processes.

The Government of India (GoI) is responsible for national defence, a mandate carried out through the MoD. The Ministry provides the policy framework, resources, and institutional support required by the armed forces to discharge their responsibilities and defend the country.<sup>1</sup> The MoD is comprised of five departments:<sup>2</sup>

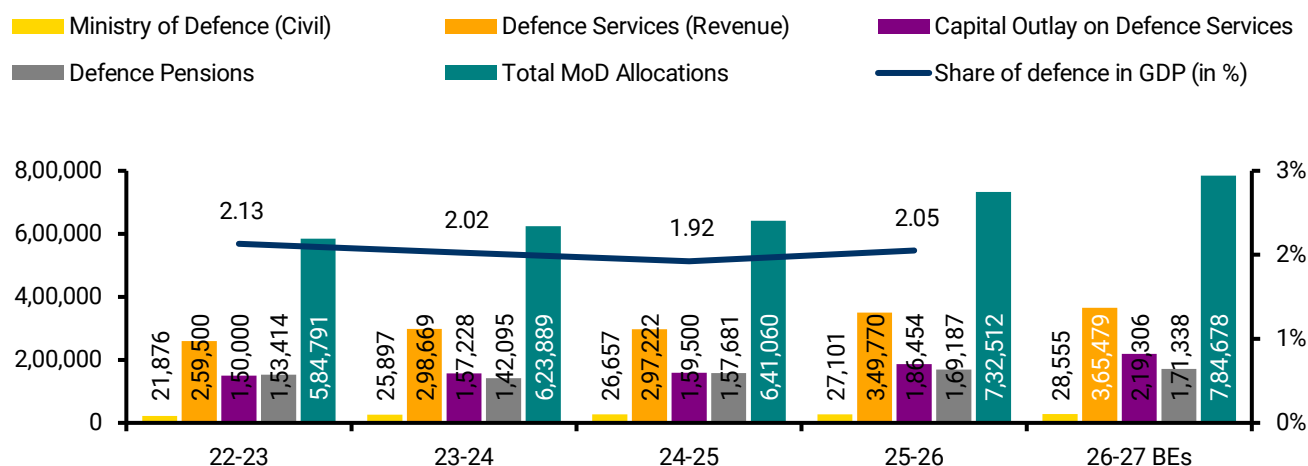
-  **Department of Defence (DoD):** Oversees the defence budget, establishment matters, defence policy, parliamentary affairs, international defence cooperation, and overall coordination of defence-related activities.
-  **Department of Defence Production (DDP):** Manages defence manufacturing, including the establishment and functioning of Defence Public Sector Undertakings (DPSUs), and promotes participation of private industry.
-  **Department of Defence Research and Development (DDR&D):** Responsible for the design and development of defence technologies and equipment to meet the requirements of the armed forces.
-  **Department of Military Affairs (DMA):** Facilitates optimal resource utilisation and promotes jointness among the services in procurement, training, and staffing.
-  **Department of Ex-Servicemen Welfare (DESW):** Handles resettlement, welfare, and pension-related matters of ex-servicemen.

India has the fifth largest military expenditure globally; in 2024, it accounted for 3.2 per cent of world military spending.<sup>3</sup>

## TRENDS IN FINANCES FOR THE MINISTRY OF DEFENCE

- In FY 26-27 BEs, ₹7,84,678 crore was allocated to the MoD, an increase of 7 per cent as compared to the previous year's Revised Estimates (REs), and a 15 per cent increase if compared to the BEs.
- The allocation is distributed across four Demands for Grants:
  - Ministry of Defence (Civil):** Covers civil expenditure of the MoD Secretariat and affiliated organisations, including the Defence Accounts Department, Canteen Stores Department, Defence Estates Organisation, and the Coast Guard.
  - Defence Services (Revenue):** Meets the running and operational expenses of the armed forces and related establishments. This includes pay and allowances, transportation, rations and fuel, maintenance of equipment, utilities, and other recurring costs.
  - Capital Outlay on Defence Services:** Provides for the acquisition of platforms, weapons, and equipment, as well as expenditure on land, construction, plant and machinery, vehicles, naval vessels, aircraft, and related assets.
  - Defence Pensions:** Covers pensions of retired defence personnel.
- Across all years, Defence Services (Revenue) accounts for the largest share of MoD allocations, while the Ministry of Defence (Civil) receives the smallest share. In FY 26-27 BEs, 47 per cent of the total allocation is directed towards Defence Services (Revenue), followed by Capital Outlay on Defence Services (28 per cent), Defence Pensions (22 per cent), and Ministry of Defence (Civil) (4 per cent).
- Of the four grants, only the Ministry of Defence (Civil) includes both revenue and capital components. Capital outlay on Defence Services is entirely capital, while Defence Services (Revenue) and Defence Pensions comprise only revenue expenditure. Overall, revenue expenditure accounts for the majority (71 per cent) of the Ministry's total allocation in FY 26-27 BEs.
- Though allocations towards the MoD have increased over the years, spending on defence as a share of the Gross Domestic Product (GDP), has declined from FY 22-23 (2.13 per cent) to FY 25-26 REs (2.05 per cent).

**Figure 1: Allocations of the Ministry of Defence from FY 22-23 to FY 26-27 BEs (in ₹ crore)**



**Source:** (1) Union budget documents, various years, available at [url](#), last accessed on 4 February 2026 (2) Annual and Quarterly Estimates of GDP at current prices, 2011-12 series, MoSPI, [url](#).

**Note:** Allocation figures for FY 22-23 to FY 25-26 are REs, and for FY 26-27 are BEs. The share of defence in the GDP has been computed by taking Actuals from FY 22-23 to FY 24-25 and REs for FY 25-26.

- Actual expenditure across MoD, however, has exceeded allocations, except for Capital Outlay on Defence Services, where expenditure has fallen short of allocations.
- In FY 25-26, allocations for the Ministry of Defence (Civil) were reduced by 6 per cent at the RE stage. In contrast, all other grants recorded increases, with Defence Services (Revenue) registering the largest rise, at 12 per cent.

**Table 1: Trends in allocations and expenditures between FY 22-23 and FY 25-26 (in ₹ crore)**

	22-23			23-24			24-25			25-26		
	BE	Actuals	% Change (A-BE)	BE	Actuals	% Change (A-BE)	BE	Actuals	% Change (A-BE)	BE	RE	% Change (RE-BE)
<b>Ministry of Defence (Civil)</b>	20,100	20,568	2	22,613	22,712	0.4	25,963	27,616	6	28,683	27,101	-6
<b>Defence Services (Revenue)</b>	2,33,001	2,56,183	10	2,70,120	2,90,443	8	2,82,773	2,90,965	3	3,11,732	3,49,770	12
<b>Capital Outlay on Defence Services</b>	1,52,370	1,42,940	-6	1,62,600	1,54,256	-5	1,72,000	1,59,768	-7	1,80,000	1,86,454	4
<b>Defence Pensions</b>	1,19,696	1,53,407	28	1,38,205	1,42,093	3	1,41,205	1,57,654	12	1,60,795	1,69,187	5

**Source:** Union budget documents, various years, available at [url](#), last accessed on 4 February 2026.

**Note:** For FY 25-26, the change (in %) reflects the change between the BEs and REs. In all other years, it reflects the change (in %) between the BEs and Actuals.

## KEY SCHEMES OF THE MINISTRY OF DEFENCE

This section summarises financial trends across the MoD's major expenditure heads. Detailed descriptions are provided in **Annexure-1**.

- Over the years, revenue expenditure of the Army has accounted for the largest share of MoD allocations. In FY 26-27 BEs it constitutes 31 per cent of total allocations, followed by pensions for the army (19 per cent). Other significant components include the procurement of other equipment (10 per cent), allocations for the Air force (8 per cent) and for the purchase of Aircraft and Aero Engines (8 per cent).
- In comparison, the Navy and Air Force account for smaller shares of the overall budget. In FY 26-27 BEs, allocations towards the Navy and Air Force were 6 per cent and 8 per cent, respectively, while their pensions and retirement benefits accounted for 1 per cent and 2 per cent, respectively.
- Within service-level allocations for the Army, Navy, and Air Force, pay and allowances constitutes the largest component. In FY 26-27 BEs, 49 per cent, 21 per cent, and 33 per cent, of the service level allocations for the Army, Navy and Air Force, respectively, are directed towards pay and allowances (excluding civilian components under these heads). Further, 5 per cent of total service level allocations were for the Agnipath scheme for the three services.
- Most expenditure heads recorded higher allocations in FY 26–27 BEs compared to the previous year's REs. Exceptions include allocations for the purchase of aircraft and aero engines and for naval dockyards and projects, which declined. Although allocations to the army and navy pensions increased, the rise was marginal.
- While allocations were largely revised upwards at the RE stage in FY 25-26, capital procurement heads experienced notable reductions, particularly for purchase of other equipment (20 per cent), and construction works and naval fleets (12 per cent each). Pay and allowances of the Navy were also reduced by 16 per cent, even though the Navy's overall allocation increased by 15 per cent at the RE stage.
- Between FY 22-23 and FY 24-25, actual expenditure has typically exceeded BEs, except in certain capital procurement heads and in pay and allowances for the Army, Navy, and Air Force, where spending fell short of allocations.

**Table 2: Trends in allocations and expenditures across key defence expenditure heads**

Expenditure heads		22-23	23-24	24-25	25-26	26-27
Work executed by the Border Roads Development Board	BE	4,555	6,005	7,805	8,480	8,917
	Actuals	5,550	7,179	7,865	8,570	
	%	22	20	1	1	
Army	BE	1,64,898	1,82,650	1,92,680	2,07,520	2,43,239
	Actuals	1,71,031	1,92,559	1,98,026	2,30,837	
	%	4	5	3	11	
Navy	BE	25,406	32,284	32,779	38,150	46,800
	Actuals	=30,042	34,262	32,735	43,938	
	%	18	6	-0.1	15	
Air Force	BE	32,873	44,346	46,223	53,700	63,150
	Actuals	45,667	53,025	49,332	63,100	
	%	39	20	7	18	
Aircraft and Aero Engines	BE	26,962	28,222	40,278	48,614	63,734
	Actuals	35,010	24,981	44,365	72,780	
	%	30	-11	10	50	
Other Equipments	BE	60,031	67,023	62,198	63,099	82,218
	Actuals	51,706	71,907	52,205	50,760	
	%	-14	7	-16	-20	
Construction Works	BE	9,316	11,031	12,017	11,452	11,752
	Actuals	8,496	8,993	9,215	10,106	
	%	-9	-18	-23	-12	
Naval Fleet	BE	29,452	24,200	23,800	24,391	25,024
	Actuals	23,483	24,647	25,567	21,397	
	%	-20	2	7	-12	
Naval Dockyard/ Projects	BE	3,842	6,725	6,830	4,500	4,334
	Actuals	4,364	5,222	5,619	4,500	
	%	14	-22	-18	-	
<b>PENSIONS AND OTHER RETIREMENT BENEFITS FOR:</b>						
Army	BE	1,02,808	1,19,300	1,27,636	1,41,751	1,51,631
	Actuals	1,07,968	1,21,191	1,33,713	1,42,557	
	%	5	2	5	1	
Navy	BE	5,944	6,776	7,732	9,464	10,024
	Actuals	6,162	7,096	8,551	8,937	
	%	4	5	11	-6	
Air Force	BE	10,925	12,109	13,813	17,554	17,646
	Actuals	11,119	13,778	15,359	17,656	
	%	2	14	11	1	

Source: Union budget documents, various years, available at [url](#), last accessed on 4 February 2026.

## MAIN DEVELOPMENTS

- The gap between allocations and actual expenditure on capital acquisitions has been attributed to lengthy procurement and negotiation processes, constraints in absorbing funds within the domestic industry, and disruptions to global procurement due to geopolitical factors. The Ministry has initiated reforms to streamline procedures, reduce bottlenecks, and shorten procurement timelines to enable faster placement of orders.<sup>4</sup>
- Domestic capital procurement has increased over time (supported by policy measures, including the Defence Acquisition Procedure, 2020), while reliance on imports has declined, reflecting Gol's focus on strengthening indigenous defence manufacturing.<sup>5</sup>
- Given the evolving nature of modern warfare, the Standing Committee highlighted the need to track emerging technologies such as robotics and automation, hypersonic and high-velocity systems, and intelligence-led warfare enabled by artificial intelligence. In this context, the Ministry has established a Future Warfare Fund within the Armed Forces and proposed the creation of a Future Analysis Group to assess technological trends. The Committee recommended adequate budgetary support for research and development in these areas.<sup>6</sup>

- To address pension-related grievances, GoI has established service centres and call centres nationwide and monitors complaints through the Centralised Public Grievance Redress and Monitoring System (CPGRAMS).<sup>7</sup> The SPARSH (System for Pension Administration-Raksha) portal, launched in October 2020, provides a digital, transparent, and streamlined system for managing defence pensions. More than 31 lakh pensioners have been onboarded, with pensions credited directly to their bank accounts.<sup>8</sup>
- To strengthen India's position as a defence research and technology hub, several initiatives have been undertaken:<sup>9</sup>
  - The Technology Development Fund provides grants of up to ₹50 crore to MSMEs and startups to develop defence and dual-use technologies.
  - DRDO has established Industry Academia Centres of Excellence (DIA-CoEs) at IITs and other universities to promote directed research in priority areas.
  - The Innovations for Defence Excellence (iDEX) framework supports startups, MSMEs, and innovators through financial and incubation assistance to foster innovation
- As of December 2024, 79 projects worth ₹334 crore had been sanctioned to industry under technology development initiatives, 15 DIA-CoEs had been established, and 264 projects worth ₹930 crore had been supported under DRDO's Grants-in-Aid schemes.<sup>10</sup>
- India's defence exports reached an all-time high of ₹23,622 crore in FY 24-25, reflecting a growth of 12.04 per cent over the previous year, with equipment exported to more than 80 countries.<sup>11</sup>
- There are 16 DPSUs that play a key role in advancing self-reliance in defence manufacturing;<sup>12</sup> however, they continue to suffer from vacancies.<sup>13</sup>

## ANNEXURE- 1

Scheme Name	Description
Agnipath	Approved in 2022, the Agnipath scheme provides for the recruitment of Indian youth, known as Agniveers, into the armed forces for a period of four years. Agniveers receive a monthly salary during their tenure. Upon completion of service, they are provided a one-time, tax-exempt 'Seva Nidhi' package, comprising their individual contributions to the Agniveer Corpus Fund, accrued interest, and an equal matching contribution from the Government.
Pension	GoI implemented the One Rank One Pension (OROP) scheme for all defence personnel and family pensioners, effective 1 July 2014. Under the scheme, pensions are revised every five years and are fixed based on the average of the minimum and maximum pensions drawn by retirees of the same rank with the same length of service in the reference year.

## REFERENCES

- <sup>1</sup> Ministry of Defence, About the Ministry, available at: [url](#).
- <sup>2</sup> Ministry of Defence, About Us, Departments, available at: [url](#).
- <sup>3</sup> Trends in World Military Expenditure, 2024, SIPRI Fact Sheet (April 2025) available at [url](#).
- <sup>4</sup> 9th Report, Demand for Grants (25-26): Demand No. 21 and 22 of the Ministry of Defence (March 2025) available at [url](#).
- <sup>5</sup> *Ibid*.
- <sup>6</sup> 7th Report, Demand for Grants (25-26): Demand No. 19, 20 and 21 of the Ministry of Defence (March 2025) available at [url](#).
- <sup>7</sup> Lok Sabha Unstarred Question No. 2143 (1 August 2025) available at [url](#).
- <sup>8</sup> Lok Sabha Unstarred Question No. 2138 (1 August 2025) available at [url](#).
- <sup>9</sup> Lok Sabha Unstarred Question No. 1955 (6 December 2024) available at [url](#).
- <sup>10</sup> *Ibid*.
- <sup>11</sup> Ministry of Defence, Annual Report (2024-25) available at [url](#).
- <sup>12</sup> Lok Sabha Unstarred Question No. 1097 (5 December 2025) available at [url](#).
- <sup>13</sup> Lok Sabha Unstarred Question No. 2183 (12 December 2025) available at [url](#).

## About ResGov

The Foundation for Responsive Governance (ResGov) is a Section 8 not-for-profit working to strengthen the capabilities of government and communities to ensure public initiatives reach the most vulnerable.

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